Committee On Finance
Max Baucus, Ranking Member

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Statement of U.S. Senator Max Baucus
Hearing on Long-Term Social Security Outlook

"Seventy years ago, in June of 1934, President Franklin Delano Roosevelt sent Congress a message calling for Social Security legislation. And for generation after generation since, workers have paid for and earned Social Security insurance. For generation after generation, Social Security has provided valuable insurance that helps, in the 1935 words of Finance Committee Chairman Harrison of Mississippi, 'meeting some of the major economic hazards of life.'

Social Security has greatly reduced poverty. Today, ten percent of our seniors live in poverty. Without Social Security, more than half of seniors would live in what Senator Harrison called 'the gaunt specter of need in old age.'

Social Security is the only source of income for one-fifth of Americans over age 65. And it is more than half of the income for two-thirds of seniors. So we have to make sure that this program can pay its promised benefits to those who have earned them.

Under the estimates of either of the experts before us today, Social Security can pay full benefits for four or five decades into the future. And after that, Social Security can still pay 70 to 80 percent of benefits each year from payroll taxes coming in. Plainly, we are going to need to strengthen the program so that it can pay full benefits beyond four or five decades. And the sooner we act, the less painful will be the solutions.

Social Security faces long-term challenges. But it is not in a 'crisis.' In 1983, we were within several months of where we could not pay full benefits. That was a 'crisis.' Today, we can pay full benefits for the next 40 or 50 years.

Yes, Social Security costs money. In 1935, Senator Wagner acknowledged that Social Security would cost money.

But he said: 'In truth, the argument addressed to cost overlooks the simple fact that every civilized community does and must support its old and dependent people in some way. In this country, we have been doing it largely by inefficient relief methods, by shabby pension systems, and by imposing burdens upon millions of younger members of families, with consequent impairment of their industrial efficiency, their morale, and their own opportunities for future independence.'

That's what life was like before Social Security. And we don't want to go back there again.

President Bush has hinted that his preference for addressing Social Security's challenges is contained in 'Model Number 2' put forward by the President's Commission on Social Security. Both the experts here today have analyzed this plan. So we can ask them for the facts.

This plan has two major parts:

First, it would divert Social Security payroll taxes into new private savings accounts. But diverting Social Security payroll taxes into private accounts makes the long-run financial problem of Social Security worse, not better. Privatization, like that in Model 2, will make Social Security's financial problem worse by more than $4 trillion.

Second, in order to reduce the costs associated with the private accounts, Model 2 would deeply cut Social Security benefits for future beneficiaries by changing the way benefits are calculated. And these benefit cuts would apply to everyone, even those who chose not to participate in the private accounts.

What's more, beneficiaries would not get to keep all of the money in their private accounts. They would have to give back a lot of that money when they retire. But even with the benefit cuts and the private accounts Social Security's would still have a long-run financial problem of more than $2 trillion.

And the costs of Model 2 to taxpayers start immediately, as payroll taxes are diverted into private accounts. But the savings to the government from not letting you keep all of your private accounts do not kick in until people retire. And most of the participants in Model 2 will not retire for many years.

As a result, the government would run up massive increases in federal debt right away — as much as $2 trillion in debt in the first decade. That's on top of the $4.3 trillion in debt that we already have.

But Model 2 is not limited to private accounts. It also includes deep benefit cuts for retirees from changing the way benefits are calculated. And when I say deep, I mean painfully and unnecessarily deep.

Under Model 2, initial benefits for future retirees would be cut drastically. For someone who is in his or her mid-30s now, the benefit cut would be about one-fourth. For someone born in the year 2000, one of our young children or grandchildren, the cut would be about half. That is not the legacy that we should leave to our children.

If the change in benefits in Model 2 had been in place when Social Security began to pay benefits in 1940, then 7 million more seniors over age 65 would live in poverty today. 7 million. This change in the way benefits are calculated would have cut benefits for those seniors by about 60 percent. These estimates were made by the nonpartisan Congressional Research Service. Mr. Chairman, I ask that they be included in the record.

But you might say, 'I just won't participate in the private accounts. Then I won't have my benefits cut.'

Guess again. These cuts will apply even if you don't choose to participate in the private accounts. That doesn't seem fair to me. And it may not seem fair to millions of Americans.

The advocates of privatization tell us that these benefit cuts will be made up by the income that seniors will get from the private accounts. Unfortunately, that is wrong too.

The Congressional Budget Office (CBO) tells us that even with the income from the private accounts, workers with average earnings who were born between 1970 and 1980 and who retire at age 65 will have their total retirement income — their Social Security benefit plus their income from their private account — cut by about one-fourth below what they can expect from

Social Security under current law. CBO also tells us that those with average earnings born in this decade who retire at age 65 will have their total retirement income cut in half. And the Chief Actuary projects a cut of about a third in total retirement income — relative to benefits scheduled under current law — for a one-earner couple born at the end of this decade who has average earnings and retires at age 65.

So the bottom line is clear. Under estimates from either set of experts, under Model 2 — even if you participate in a private account — you are going to have much less retirement income than you are currently promised to receive under current law.

Even with the deep cuts in benefits, Model 2 will still cause the federal government to accumulate a massive increase in debt, which is already $4.3 trillion today. And we can expect to be adding trillions of dollars more to the debt if the rest of the President's budget is enacted. That is not fiscal responsibility.

The kind of plan the President seems to be suggesting would mean deep benefit cuts for retirees. And it would also mean massive increases in debt for the federal government. That is a bad combination. And I am very concerned about it.

We have with us today two of the top experts on Social Security, and two of our Country's foremost public servants. Stephen Goss is Chief Actuary of the Social Security program. And Douglas Holtz-Eakin is the head of the Congressional Budget Office. I look forward to the testimony of our two expert witnesses.

But what's more, I look forward to keeping foremost in our minds why we have Social Security. Seventy years ago, the Finance Committee watched as several elderly gentlemen, who were totally blind, were led into the committee room by their guide dogs and told of their life of need, before Social Security. Senator Harrison said, 'I do not know of any committee that was ever moved more than was the Finance Committee.'

Today, as we listen to the cold numbers and the hard facts, let us not forget why Social Security is there, and why we have to preserve it and protect it for the future."

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